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SUBJECT: ETHIOPIA: MONTHLY ECONOMIC REVIEW FOR OCTOBER 2007

REF: ADDIS ABABA 2983

[1](#). SUMMARY

- Joseph Stiglitz cites Ethiopia's impressive economic growth.
- Consumer Price Index (CPI) continues to rise: General inflation reached 19.3% and food inflation 29.2% in October.
- The Birr continues to depreciate: the official exchange rate continues a slow crawl, but the parallel market rate indicates significant depreciation.
- Balance of Trade: Ethiopia secured \$1,185.1 million USD from merchandise exports while the total import bill rose to \$5,126.2 million during fiscal year 2006/07. Fuel imports alone took 75 percent of the total export earnings.
- Telecommunications: Ethiopia will not issue new mobile licenses to private investors until at least 2010 according to the Minister of Transport and Communication.
- Foreign Investment: The Chinese government has embarked upon increased activities with a view to encouraging Chinese investors to widely involve in Ethiopia. End SUMMARY

ECONOMIC GROWTH

[1](#)2. In a lecture to the Ethiopian Economic Association and the Ethiopian Development Research Institute, Professor Joseph Stiglitz, a leading economic educator, said that Ethiopia's economy has been doing well over the last few years. He seemed impressed by Ethiopia's economic growth, although he was concerned about sustainability. While most east African and Asian countries have experienced significant economic growth, Stiglitz was struck by the source of Ethiopia's growth. He is quoted as saying "Some of the growth these developing countries registered over the last several years is a result of hike in commodity prices, particularly in the case of China. The success in Ethiopia is clearly far more than that. It has got to do with an increase in production output, diversification, and going into new areas." He further highlighted Ethiopia's highly egalitarian distribution of income.

PRICE DEVELOPMENTS--INFLATION STILL ON THE RISE

[1](#)3. Inflation is on the rise in Ethiopia over the past three years. According to official statistics published by the Central Statistics Agency (CSA), the annualized moving average country level headline inflation rate reached 19.3 percent in September 2007, up from 18.5 percent in August and 12.4 percent a year earlier. Annual general inflation was 23.3 percent while food inflation rose to 29.2 percent in September. See Reftel for discussion of possible causes of this inflation.

EXCHANGE RATE--BIRR CONTINUES DEPRECIATION

[1](#)4. Ethiopia follows a managed floating exchange rate regime where

the official exchange rate is determined by the daily inter-bank foreign exchange market in which National Bank of Ethiopia (NBE), Ethiopia's central bank, intervenes to regulate the market. The inter-bank rate at the end of October was Birr 9.0414 per USD in contrast to Birr 9.0383 at end September and Birr 8.7018 a year earlier. Meanwhile, the Birr is significantly depreciating in the parallel market, reaching Birr 9.32 per USD in October from Birr 9.26 in September. The depreciation in the local currency is triggered by the acute problems of foreign exchange in the country. Driven by rising domestic inflation relative to prices of Ethiopia's major trading partners, the real effective exchange rate is appreciating, making the country's exports less competitive.

TRADE DEFICIT GROWS-- MAJORITY OF EXPORT RECEIPTS SPENT ON FUEL

15. During fiscal year 2006/07, Ethiopia's imports totaled 5.1 billion USD and export totaled 1.2 billion USD, indicating a trade deficit of 3.9 billion USD. The deficit is narrowed by net service payment of 1.6 billion USD, and private & official remittances of 2.9 billion USD. Major imports include transport and industrial capital goods (36.5 percent), petroleum products (17.1 percent), raw materials such as chemicals, consumer durables and non-durables such as cereals and textiles (43.5 percent). China is the largest supplier (16.6 percent), followed by Saudi Arabia (15.3 percent), Italy (7.7 percent), India (7.0 percent), and United States (3.8 percent). In the export side coffee (35.8 percent) is still the leading export followed by oilseeds (15.8 percent), gold (8.2 percent), khat (7.9 percent), leather and leather products (7.6 percent), pulses (5.9 percent) and flowers (5.4 percent). Major export destinations include Germany (11.8 percent), followed by Italy (6.3 percent), Saudi Arabia (6.2 percent), Japan (6.1 percent), United States (5.0 percent), China (5.0 percent), and Netherlands (4.8 percent) and Africa 15.5 percent). The majority of exports to Africa go to Djibouti.

16. Ethiopia spends more than 75 percent of its hard currency earned from foreign trade and commercial activities to finance fuel imports. During fiscal year 2006/07 the country imported close to 2 billion liters of fossil oil and spent 875.1 million USD. Its needs in terms of volume, however, are comparatively low as Ethiopia stood as 198th out of 205 countries in per capita oil consumption in 2004, requiring only 0.379 barrels per 1,000 people.

17. Importation of petroleum products is monopolized by the Ethiopian Petroleum Enterprise (EPE) and distributed among petroleum companies such as TOTAL, Shell, National Oil Company (NOC) and Yetebaberut Beherawi Petroleum (YBP) as well as the new entrant, Kobil. Distributors earn margins per liter of Birr 0.595 for benzene and Birr 0.583 for diesel.

TELECOM--NO PRIVATE SECTOR INVOLVEMENT UNTIL AT LEAST 2010

18. Ethiopia has launched a \$1.5 billion project with Chinese company Zhong Xing Telecommunication Equipment Company Limited (ZTE) to lay down a fiber optic cable network and erect base stations across the country that will bring 85 percent of the country under mobile phone coverage. "Our policy at the moment is that we are not looking at a second operator. Once the basic infrastructure is deployed by 2010, then we can look at such an issue," Juneydi Sado, Minister of Transport and Communications, told Reuters. "Because of the universal access issue, sometimes operators might not be interested in the remote areas where financially it might not be viable, so we want to address this issue first and after that we can talk about this public-private issue." The government project plans to increase the fiber optic network to 14,000km from the current 4,000km and the government also intends to install 65,000 public phones throughout the country. The Ethiopian Telecommunication Company (ETC) has targeted to increase the mobile and fixed-line subscriber base to over 10 million by 2010 from the current 3.6 million.

FOREIGN INVESTMENT - THE CHINESE CONTINUE TO ENGAGE

19. The Chinese government has embarked on increased activities to encourage Chinese investors in Ethiopia, the Chinese Ambassador to Ethiopia told reporters. Several Chinese investors are showing interest to engage in investment activities in Ethiopia. The Ambassador is quoted as saying "we consider Ethiopia to be a very good country for Chinese cooperation; the political situation is stable and the government is trying to encourage democracy and people's participation." Currently, Chinese companies are investing significantly in Ethiopia in the mine, roads, health, and ICT

sectors.

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